SECRET

4 October 1963

OCI No. 0300/63A
Copy No.

SPECIAL REPORT

SOVIET PAYMENT PROBLEMS

CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

25X1

SECRET

Approved For Release 2006/05/24 : CIA-RDP79-00927A004200050002-1

4 October 1963

SOVIET PAYMENT PROBLEMS

The USSR's recent large-scale purchases of foreign grain will mean a heavy drain on its gold stocks and foreign exchange reserves during the next year. The recent wheat deals with Canada and Australia, plus payments for additional quantities of grain which Moscow is currently seeking, may increase the Soviet trade deficit--which was $350 million in 1962--to twice that amount in 1963 and 1964. The deficits of recent years, resulting largely from rapidly growing imports of Western machinery and equipment since 1960, have been offset by sales of gold and by medium-term credits extended by Western countries. Repayments on these credits will absorb three fourths of the new credits obtained this year, and current grain purchases can probably be financed only by expanding gold sales considerably. By the end of 1964 the USSR's $2-billion gold stock may be reduced by about 40 percent.

Chronic Payments Deficit

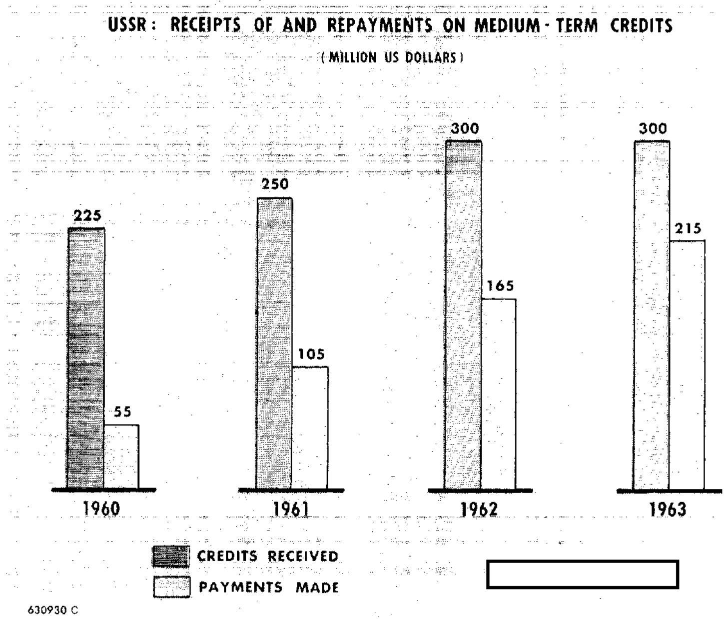
During the past decade Soviet imports of goods and services from the West have consistently exceeded exports and have been financed largely through substantial sales of gold. Since 1959, imports of Western machinery and equipment to assist in the fulfillment of Soviet industrialization goals have tripled and in 1962 were valued at $600 million. About half this amount was covered by sales of gold, the balance by five-year credits from Western equipment suppliers.

Although Western countries have already extended $300 million in new credits in 1963, all but $85 million of this was offset by repayments on earlier credits. The maintenance next year of approximately this same level of new credits would do no more than meet Moscow's obligations on old debts.

The USSR has not yet shown any inclination to reduce its demand for Western machinery and equipment, and without sharply increased Western credits, its payments position will worsen. Exporters in free world industrial countries, anxious to expand their markets in the USSR, may offer easier credit terms as long as high Soviet import

25X1

demand for Western machinery and equipment continues. Securing longer term credits, the effect of which is to postpone repayments, is probably a major Soviet aim at this time.



25X1

New Industrial Orders

New Soviet orders for machinery and equipment have increased considerably. In the past 12 months, the USSR has signed firm contracts for future deliveries of Western machinery and equipment valued at $600 to $700 million. In 1963 alone new Soviet orders have so far reached about $500 million.

Soviet purchases have been concentrated chiefly on chemical equipment for the production of fertilizers, synthetic fibers, and plastics, and on ships--fish processing, refrigerators, general cargo, and tankers. The current series of Soviet purchase contracts does not yet appear at an end. Shopping lists for oil refinery equipment as well as more chemical equipment of the types recently purchased indicate continued Soviet interest.

Future Payment Problems

For the 7.8 million tons of wheat from Canada and Australia, the USSR apparently will pay $555 million in cash during the next year, although Canada has allowed up to 18 months' credit. Moscow is seeking more Western grain and is in the market for an additional 3 million tons of US wheat worth $225 million to be delivered for cash early next year.

The effects of the hard-currency expenditures occasioned by these purchases have already shown up this year in the unusual sale of as much as $200 million in gold in September. Soviet gold sales normally are made in smaller amounts over extended periods, and the typical Soviet "selling year" for gold does not begin until October. Total sales in 1963 to date are believed to have reached $350 million. It is estimated that additonal amounts will be sold before the end of the year to meet previous payment obligations and to provide funds for the extraordinary cash payments due in late 1963 and in 1964.

The impact of the grain purchases on the Soviet balance of payments will be greatest next year. The hard-currency deficits in 1963 and 1964 could easily be double the $300-million annual average of 1960-62.

The prospects for balance-of-payments relief through the expansion of merchandise exports or contraction of Soviet imports are not good. It is likely that the $40 million in foreign exchange the USSR earned annually during the period 1960-62 from grain sales will not be available in the next year or two. Petroleum sales, which provide major foreign exchange receipts, began to level off last year and will not offset the loss of earnings from grain. Some additional, but not significant, new earnings may come from increased sales of metals, ores, lumber, and sugar.

Prior orders for equipment and machinery, plus the need for raw materials, make it unlikely that imports can be radically slashed. In fact, imports of machinery and equipment, which may be down somewhat in 1963 as a result of the decline in new Soviet orders during 1961-62, will probably increase again by 1964.

The USSR may be able to reduce some imports by varying degrees. Imports of large-diameter pipe, valued at $70 million in 1962, will have largely disappeared by 1964 as a result of the pipe "embargo" and increased Soviet capacity. Natural rubber purchases from Malaya, which cost the USSR $160 million in foreign exchange in 1962, may decline somewhat. Any reduction, however, will depend on Soviet willingness and ability to use more domestically produced synthetic rubber and on the prospects for receiving more natural rubber from Indonesia under barter agreements.

Financial Reserves

The major burden of payments for the unprecedented grain imports will probably fall on Soviet financial

25X1

reserves, which consist overwhelmingly of gold. It is estimated that gold stocks are approximately $2 billion. The Soviet foreign exchange reserve is minimal; the USSR State Bank and the USSR Foreign Trade Bank are estimated to have holdings of only $200 to $300 million.

Since 1952, sales and internal consumption of gold have exceeded production and other acquisition. From 1953 to 1962 Soviet gold reserves declined almost $1 billion. The recent grain purchases will generate even greater sales so that gold reserves will decline sharply despite probable increases in gold production. The continued expansion of gold output in the face of extremely high production costs indicates the importance to the USSR of this source of foreign exchange.

Impact on the Economy

The USSR views its gold reserves more as a means of securing imports to make up for production deficiencies at home than as a backing for the currency. Even if a decision is made to hold down or cut back the level of imports relative to exports for the next several years, they cannot be reduced sufficiently to prevent an unusually large drain on gold reserves. Moreover, the trade debt--$500 million at the end of 1962--already is so high as to reduce Soviet flexibility in using imports to make up for failures which may occur in the planned domestic production of capital goods. Unless grain production improves substantially in the near future, there is little doubt that some important features of the planned domestic investment program will have to be sacrificed.

25X1

* * *